21, 1980

TWO DOLLARS

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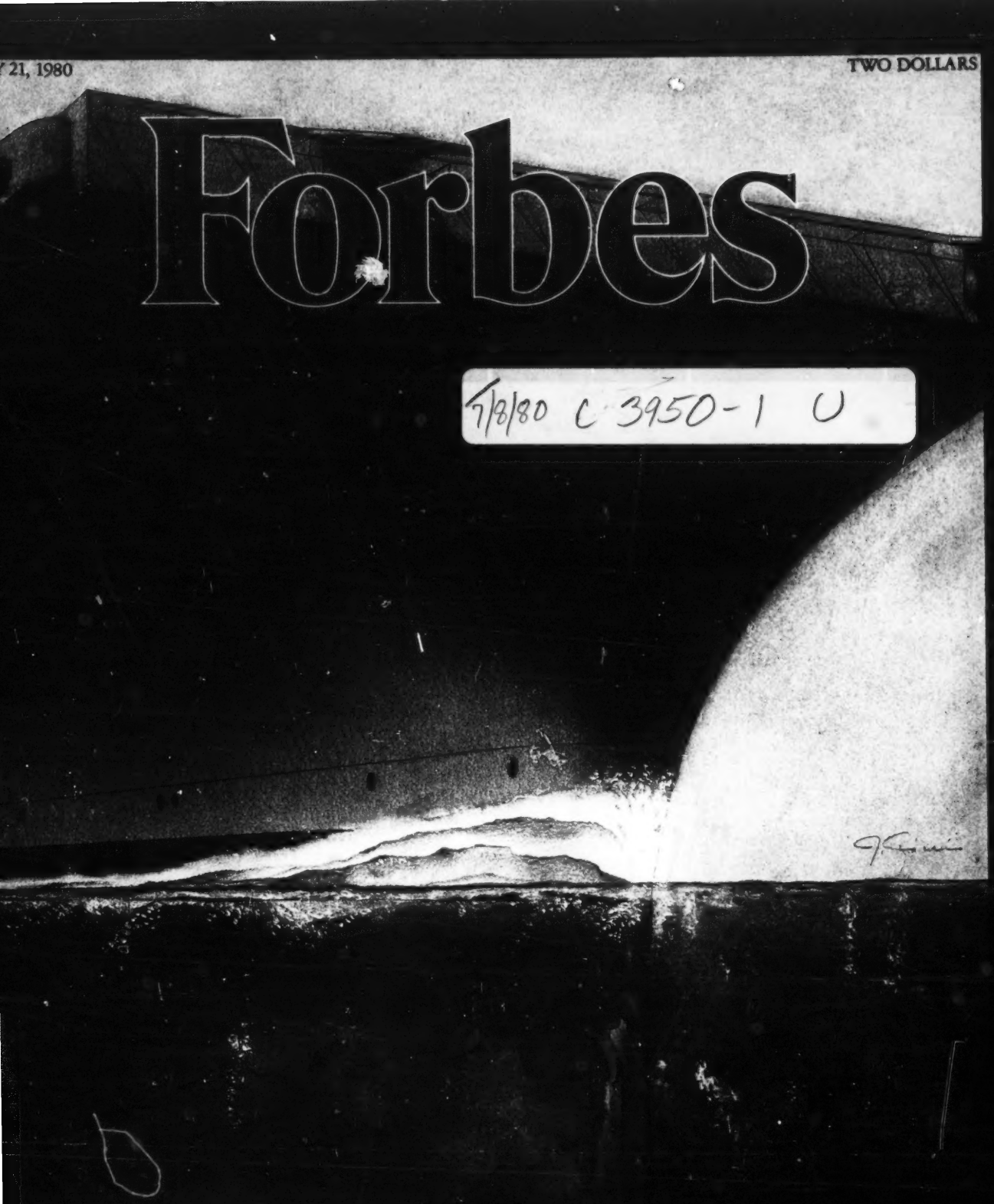

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U.S. NAVAL POWER

HOW STRONG? HOW VULNERABLE?

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July 21, 1980
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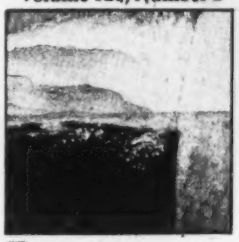

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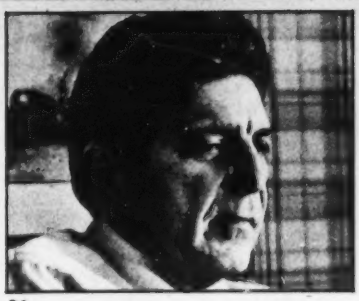

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It's no disgrace to find your company's name on the following lists. Some of these stocks will be big winners in the next 12 months.

Loaded laggards

Statistical Spotlight

COUNT DRACULA would have loved these lists. While everyone else is off chasing oil service stocks and defense stocks, he would have his pick of an ever-lengthening list of ghoul's gold—stocks worth far more dead than alive. While it's no rarity in this undervalued stock market for a stock to be selling around book value, how can you sneer at discounts from book of 60% and more?

Think like Dracula for a moment. They used to call it tombstone-watching. Do you really have to worry much about the immediate prospects of the boating industry when you can buy $3.02 worth of Outboard Marine assets for every dollar you invest? Now look at it over time. Back in 1971 you would have gotten only 11 cents' worth of Jewelcor assets for every dollar you invested in that stock. But today you would be buying $3.32 in assets.

It's no secret that when discounts from book value are that steep they tend to attract tender offers. In October, for example, swimsuitmaker Jantzen was selling at a book/price ratio of 1.73—roughly 60% of book value. A few months later Blue Bell paid out $30 a share for Jantzen, giving Dracula a tidy 94% gain on his investment.

What does the Count tell his broker to look for over there in Transylvania? Three things. First, a stock selling way below book value—say at least a book/price ratio of 1.79 or higher. Second, just to be on the safe side, the company has to have positive net working capital. And third, to be safer still, it has to have been in the black for the past 12 months.

That gives you a list like the first table. Most of the companies on this list also sell for less than net working capital: current assets minus all debt and preferred stock. They are worth more dead than alive even if their plant and equipment are worthless.

If you're as discriminating about such ghoul's gold as Dracula can afford to be in this market, there's a further test that gives you a reading of a company's relative health: the ratio of total debt plus unfunded pension liability to cash flow. In other words, how fast can the company liquidate all its debt and unfunded pension liability with its cash flow? When you're tombstone-watching you tend to think in such drastic terms. But it's a useful guide. By this measure Springs Mills could knock out its debt in just a year and a half, whereas it would take unfortunate Bobbie Brooks over 146 years to do the same thing.

You may well ask: Who wants to play around with this ghoulish stuff? Why not stick to oils and golds and gambling stocks—where the live action is? The answer is in the table on the opposite page; it shows some big winners from our Oct. 15, 1979 list of undervalued securities. Quite a number did handsomely in a stock market that, on balance, went nowhere.—*Steve Kichen*

Loaded laggards

All of these companies are priced at 50% discount or more from their book values. Ghoul's gold?

Company	Book value per dollar of stock price	Recent price	Book value per share	Book value per dollar of stock price: range 1970-79	Price range 1970-present	Latest 12-month earnings per share	Present P/E ratio	Net working capital per share	Net working capital per dollar of stock price	Average earned on net net worth 1970-79	Total debt + pension liability/ 1979 cash flow[1]	Indicated yield
Jewelcor	3.32	3⅜	$12.04	5.31–0.11	37⅞– 1⅜	$0.51	7.1	$ 4.07	1.12	14.3%	17.3	—
Sheller-Globe	3.09	5⅝	17.42	2.52–0.25	32⅛– 3⅞	0.15	37.5	1.74	0.31	10.7	6.5	5.3%
Outboard Marine	3.02	10⅜	31.41	2.89–0.33	60⅝– 8⅞	0.30	34.6	14.13	1.36	11.0	6.6	6.7
Cunningham Drg Strs	2.80	8⅞	24.86	7.30–0.90	16½– 2¾	1.24	7.2	13.85	1.56	3.0	1.4	4.5
Salant	2.76	15¾	15.91	4.17–0.60	13½– 2⅞	0.80	7.2	12.18	2.12	9.7	16.8	7.0
Springs Mills	2.61	15	39.21	3.79–1.55	20⅞– 8¼	4.07	3.7	19.31	1.29	5.4	1.5	8.0
American Motors	2.60	5⅜	14.01	3.80–0.66	13⅜– 3¼	1.23	4.4	6.11	1.14	0.8	3.8	—
Questor	2.60	5½	14.34	4.15–0.54	21½– 2⅞	0.73	7.5	5.76	1.05	5.2	5.0	3.6
Bobbie Brooks	2.52	3⅛	7.89	7.15–0.35	21½– 1	0.23	13.6	4.39	1.40	–5.9[2]	146.6	—
Triangle Industries	2.51	8⅜	21.66	3.17–0.93	20⅝– 6⅜	1.85	4.7	10.09	1.17	3.6	7.1	4.6
Wurlitzer Co	2.51	7⅝	19.17	7.20–0.99	19⅞– 2	0.03	NM	9.04	1.19	1.8	17.0	—
Phillips-Van Heusen	2.49	11⅝	29.02	5.76–0.73	26½– 3¾	2.35	4.9	15.81	1.36	5.3	7.0	5.2
Helene Curtis Ind	2.44	6¾	16.51	4.47–0.42	11½– 2	1.22	5.5	11.43	1.69	4.4	3.3	—
Oxford Industries	2.36	9⅝	22.72	2.99–0.52	34 – 7	1.86	5.2	15.42	1.60	14.5	2.5	7.9
Cluett, Peabody	2.34	8⅜	20.19	5.65–0.47	27⅛– 2½	1.80	4.8	12.27	1.42	6.9	3.9	7.9

[1]Cash flow: Net income plus noncash charges of depreciation, depletion and amortization, less preferred dividends.
[2]Figure shows only nine years' worth of data. NA: Not applicable. NM: Not meaningful.
Sources: Standard & Poor's; Value Line; FORBES.

Company	Book value per dollar of stock price	Recent price	Book value per share	Book value per dollar of stock price: range 1970-79	Price range 1970-present	Latest 12-month earnings per share	Present P/E ratio	Net working capital per share	Net working capital per dollar of stock price	Average earned on net net worth 1970-79	Total debt + pension liability/ 1979 cash flow[1]	Indicated yield
Fabri-Cent of Amer	2.31	5	$11.58	2.63–0.22	18⅞– 2⅜	$1.08	4.6	$6.37	1.27	13.6%	3.8	5.6%
Ceco Corp	2.18	13¾	30.11	2.64–0.55	37 – 9⅛	4.39	3.1	15.17	1.10	9.2	2.3	5.5
Magic Chef	2.18	6½	14.22	4.36–0.28	29⅜– 2½	1.09	6.0	5.35	0.82	9.4	8.1	4.9
Pamida	2.18	3¼	7.10	2.47–0.13	24⅜– 2½	0.37	8.8	3.57	1.10	11.9	4.5	—
Munsingwear	2.17	14	30.38	2.61–0.65	38¾– 9¾	1.47	9.5	19.16	1.37	7.6	9.8	8.6
McNeil Corp	2.11	13¾	29.12	3.31–1.02	20½– 6⅞	1.88	7.3	14.60	1.06	7.4	5.2	6.5
Adams Drug	2.08	3⅜	7.03	2.86–0.11[2]	26¾– 1⅜[2]	0.62	5.4	4.55	1.35	13.2[2]	4.6	1.2
Hart Schaffner Marx	2.05	12⅜	25.41	3.93–0.49	32½– 4⅞	2.56	4.8	17.22	1.39	8.0	1.9	8.1
First Wisconsin	2.02	23¼	46.97	3.67–0.82	42¾–10	5.08	4.6	58.25	2.51	9.1	NA	8.1
House of Fabrics	2.00	4⅜	8.76	2.31–0.14	29⅞– 3⅜	0.49	8.9	4.44	1.01	12.5	2.2	4.6

[1]Cash flow: Net income plus noncash charges of depreciation, depletion and amortization, less preferred dividends.
[2]Figure shows only nine years' worth of data. NA: Not applicable. NM: Not meaningful.
Sources: Standard & Poor's; Value Line; FORBES.

Testing Benjamin Graham

The late Benjamin Graham thought one sure sign of a bargain was a stock selling for less than working capital. Last October we listed 191 companies that met this criterion. Between then and now, 5 of the 191 are unchanged, 118 are down an average of 21% and 68 are up an average of 32%. Below, 35 stocks that rose 21% or more.

Company	Appreciation	October 1979 price	Recent price	October 1979 net working capital[1] per dollar of stock price	Recent net working capital[1] per dollar of stock price	Latest 12-month earnings per share	P/E ratio
All American Industries	145%	1⅜	3⅜	1.08	0.68	$0.61	5.5
Jaco Electronics	142	3	7¼	1.73	0.89	1.53	4.7
MacAndrews & Forbes Group[2]	100	4⅛	8¼	1.68	0.02	0.96	8.6
Jantzen[3]	94	15½	30	1.43	—	—	—
Cole Consumer Products[4]	91	5⅞	11¼	1.08	—	—	—
Astrosystems	75	4	7	1.26	0.81	1.17	6.0
Dewey Electronics	67	1½	2½	2.13	1.25	0.43	5.8
Marshall Industries	67	8⅜	13¾	1.08	0.74	2.03	6.8
Hiller Aviation[5]	65	3¼	5⅜	1.88	0.91	0.45	11.9
Unibraze Corp	65	5	8¼	1.37	0.92	1.19	6.9
Gateway Industries	58	9	14¼	1.01	0.79	2.95	4.8
Bayly Corp	57	14	22	1.18	0.81	5.30	4.2
Rodale Electronics[6]	56	8	12½	1.91	1.33	0.69	18.1
AIC Photo	55	2¾	4¼	1.47	1.28	1.33	3.2
Spencer Cos	52	4⅛	6¼	1.97	1.24	0.72	8.7
Stanwood	52	3⅜	5⅛	1.36	1.17	1.19	4.3
Mathematica	46	6½	9½	1.02	1.34	1.38	6.9
Andrea Radio	45	4⅛	6	1.27	0.88	0.58	10.3
Lilli Ann[7]	44	8	11½	1.42	—	—	—
National Silver Industries	41	4⅞	6⅞	2.15	1.56	0.25	27.5
Ormand Industries	41	2¾	3⅞	1.39	0.89	0.34	11.4
Sage-Allen & Co	39	4½	6¼	1.48	1.31	1.63	3.8
Atalanta[8]	33	7⅛	9½	1.35	—	—	—
Ehrenreich Photo-Optical	32	9⅜	12¾	1.19	0.78	d4.05	neg
Wham-O Mfg	32	4¾	6¼	1.20	0.89	3.05	2.0
Belscot Retailers	31	2	2⅝	2.07	1.26	d0.42	neg
Cannon Mills	31	18⅛	23¾	1.19	0.93	4.28	5.5
Frederick's of Hollywood	31	3⅜	4⅜	1.09	0.93	1.03	4.6
Entwistle Co	30	2½	3¼	1.14	0.99	d0.25	neg
Wayne-Gossard	30	5	6½	1.39	1.03	d0.67	neg
Kiddie Products	27	8¼	10½	1.34	1.24	2.33	4.5
Ducommun	25	15¾	19¾	1.20	0.97	4.16	4.7
Tandycrafts	22	5¾	7	1.23	1.10	0.43	16.3
Three D Depts	21	3½	4¼	1.49	1.29	1.07	4.0
Union Metal Manufacturing	21	9¾	11¾	1.49	1.14	1.38	8.5

[1]Net working capital = current assets minus all liabilities and preferred stock. [2]Cohen-Hatfield Industries acquired MacAndrews & Forbes and then changed company name to MacAndrews & Forbes Group. [3]Acquired by Blue Bell @ $30 per common share. [4]Acquired by Shelter Resources Corp @ $11.25 per common share. [5]Name changed from Family Record Plan. [6]Company in process of liquidation; name will be changed to REI Liquidating Corp. [7]Company tendered for its shares @ $11.50 per share; outstanding shares now listed with Pacific Stock Exchange, but stock has not been traded. [8]Public trading of company halted 6/18/80; company paying $9.50 per share for all shares in hands of public. d: deficit. neg: negative.